

CHEBOYGAN HOUSING COMMISSION
CHEBOYGAN, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <i>Choboygan Housing Commission</i>	County <i>Choboygan</i>
Audit Date <i>3/31/04</i>	Opinion Date <i>10/29/04</i>	Date Accountant Report Submitted to State: <i>11/2/04</i>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	J		
Reports on individual federal financial assistance programs (program audits).			J
Single Audit Reports (ASLGU).	J		

Certified Public Accountant (Firm Name) <i>Barry E. Gaudinke CPA, PC</i>			
Street Address <i>1107 E. 9th Street</i>	City <i>Haverhill City</i>	State <i>MA</i>	ZIP <i>01907</i>
Accountant Signature <i>Barry E. Gaudinke CPA</i>			

CHEBOYGAN HOUSING COMMISSION
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INTRODUCTION

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

Independent Auditor's Report

Board of Commissioners
Cheboygan Housing Commission
Cheboygan, Michigan

We have audited the accompanying financial statements of the Cheboygan Housing Commission, Michigan (a component unit of the City of Cheboygan) as of March 31, 2004, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cheboygan Housing Commission, Michigan, as of March 31, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2004 on our consideration of the Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Cheboygan Housing Commission
Independent Auditor's Report
Page Two

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying Schedule of Expenditures of Federal Awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Darryl E. Vandell, CPA, PC

October 29, 2004

FINANCIAL STATEMENTS

CHEBOYGAN HOUSING COMMISSION
COMBINED BALANCE SHEET
March 31, 2004
=====

ASSETS

Current Assets:

Cash	\$ 179,263
Accounts receivable-HUD	5,839
Accrued interest receivable	51
Prepaid expenses	11,173
Inventories	1,110
Due from other programs	<u>5,218</u>

Total Current Assets	<u>202,654</u>
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Property, Plant, and Equipment:

Land	20,559
Buildings	1,648,018
Equipment	108,849
Building improvements	<u>188,710</u>
	1,966,136
Less: accumulated depreciation	<u>(1,488,284)</u>

Net Property, Plant, and Equipment	<u>477,852</u>
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Total Assets	<u><u>\$ 680,506</u></u>
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See notes to financial statements

CHEBOYGAN HOUSING COMMISSION
COMBINED BALANCE SHEET (CONTINUED)
March 31, 2004
=====

LIABILITIES and EQUITY

Current Liabilities:

Accounts payable	\$ 10,570
Tenant security deposit liability	5,072
Accrued expenses	4,052
Deferred revenues	2,560
Due to other programs	<u>5,218</u>

Total Current Liabilities	<u>27,472</u>
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Equity:

Contributed capital-HUD	279,026
Undesignated retained earnings	<u>374,008</u>

Total Equity	<u>653,034</u>
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Total Liabilities and Equity	<u><u>\$ 680,506</u></u>
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See notes to financial statements

CHEBOYGAN HOUSING COMMISSION
**COMBINED STATEMENT OF REVENUE, EXPENSES AND
 CHANGES IN EQUITY**
 Year Ended March 31, 2004

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OPERATING REVENUES:

Dwelling rent	\$ 72,335
Non-dwelling rent	<u>3,421</u>
Total operating revenues	<u>75,756</u>

OPERATING EXPENSES:

Administration	127,638
Tenant services	1,241
Utilities	15,810
Ordinary maintenance and operation	44,594
General expenses	18,685
Housing assistance payments	435,147
Extraordinary maintenance	900
Depreciation	<u>93,292</u>
Total operating expenses	<u>737,307</u>

Operating income(loss)	<u>(661,551)</u>
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NONOPERATING REVENUES AND (EXPENSES):

Investment interest income	992
Fraud recovery	1,684
Gain on sale of fixed assets	5,895
Operating grants	570,299
Capital grants	<u>24,761</u>

Total nonoperating revenues(expenses)	<u>603,631</u>
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Net income(loss)	(57,920)
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Prior period adjustments	(609)
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Equity, beginning	<u>711,563</u>
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Equity, ending	<u>\$ 653,034</u>
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See notes to financial statements

CHEBOYGAN HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS
Year Ended March 31, 2004
=====

Cash flows from operating activities:

Operating(loss)	\$(661,551)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	93,292
Prior period adjustments	(609)
Changes in assets and liabilities:	
(increase) decrease in assets:	
Accounts receivable	10
Prepaid expenses	(4,902)
Due from other funds	7,172
Increase (decrease) in liabilities:	
Accounts payable-operations	675
Accounts payable-HUD	(2,451)
Accrued wage/payroll taxes	1,621
Accounts payable-PILOT	(812)
Tenant security deposits	(323)
Deferred revenues	1,947
Due to other funds	(7,172)
Net cash (used in) operating activities	<u>(573,103)</u>

**Cash flows from noncapital
financing activities:**

Operating grants	585,789
Fraud recovery	<u>1,684</u>
Net cash provided by noncapital financing activities	<u>587,473</u>

**Cash flows from capital and related financing
activities:**

Capital grants	24,761
Gain on sale of fixed assets	5,895
Payments for capital acquisitions	<u>(69,099)</u>
Net cash (used in) and related financing activities	<u>(38,443)</u>

CHEBOYGAN HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended March 31, 2004
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Cash flows from investing activities:

Receipts of interest and dividends	<u>1,067</u>
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Net cash provided by investing activities	<u>1,067</u>
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Net increase(decrease) in cash	(23,006)
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Cash, beginning	<u>202,269</u>
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Cash, ending	<u><u>\$ 179,263</u></u>
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Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	\$ 179,263
Restricted cash	<u> </u>

Cash and cash equivalents per balance sheet	<u><u>\$ 179,263</u></u>
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See notes to financial statements

CHEBOYGAN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
March 31, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Cheboygan Housing Commission. The Cheboygan Housing Commission is a component unit of City of Cheboygan. The Housing Commission is a Public Housing Agency created by City of Cheboygan on October 3, 1958, consisting of a five member board appointed by the City mayor and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Cheboygan Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3023, the Housing Commission constructed, maintains and operates 38 units of subsidized housing in the City of Cheboygan, Michigan. Under Contract, the Housing Commission manages a Housing Choice Voucher program of subsidies for 120 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission and an administrative fee based on the number of households it assists under its Housing Choice Voucher program.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or

CHEBOYGAN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
March 31, 2004
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued)

debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the balance sheets of the individual funds. Their reported equity is segregated into contributed capital and retained earning components. Operating statements present increases(revenues) and decreases(expenses) in equity.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City of Cheboygan has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

CHEBOYGAN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
March 31, 2004
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the balance sheet.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$250 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Land improvements	15 years
Buildings	40 years
Equipment - portable	5 - 7 years
Furnishings	7 years
Office equipment	7 years

Equity

The Housing Commission classifies its equity as follows:

- a. Contributed capital represents pre-2001 contributions from grants, HUD notes, and other aids for capital acquisitions and improvements.
- b. Unreserved retained earnings indicate that portion of equity which is available for use in future periods.

CHEBOYGAN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
March 31, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory is priced using the average cost method.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to contributed capital rather than retained earnings.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave: Vacation leave not taken by the employees may be accumulated not to exceed the number of weeks earned in two years, unless otherwise approved by the Executive Director.

An employee who is permanently separated shall be paid, in a lump sum, at his/her current rate of pay for all unused vacation leave.

- * Sick leave: Employees will get 8 hours sick pay each month. What sick time is not used by fiscal year-end will be paid back at 100% using the employees current rate of pay.

An employee that is terminated by Cheboygan Housing Commission or quits on their own, will not receive any payment of their accumulated sick leave.

CHEBOYGAN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
March 31, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vacation and Sick Leave (Continued)

- * Each regular full-time employee shall be allowed one (1) personal day per calendar year, beginning with the employee's anniversary date. Use of such a personal day will be deducted from the employee's accumulated sick leave.

There was not an amount of accumulated benefits at March 31, 2004, therefore a liability for the accrual did not need to be set up in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: CASH AND INVESTMENTS

The Housing Commission maintains cash and investment accounts in the Low Rent Program and Housing Choice Voucher funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent Program accounts.

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States government securities.

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end.

- Category 1: Includes deposits that are insured, registered, or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage.

CHEBOYGAN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 March 31, 2004
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NOTE 2: CASH AND INVESTMENTS (Continued)

Category 2: Includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name.

Category 3: Includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the Housing Commission's deposits may have been higher than the March 31, 2004, balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant type of deposits during the year not included below.

<u>Depository</u>	<u>Depository Balances by Category</u>				<u>Carrying Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>	
National City	\$173,448	\$	\$	\$173,448	\$168,090
First Federal Savings	1,230			1,230	1,230
Straits Area Federal Credit Union	<u>9,893</u>			<u>9,893</u>	<u>9,893</u>
Total Deposits	<u>\$184,571</u>	<u>\$</u>	<u>\$</u>	<u>\$184,571</u>	179,213
Petty cash					<u>50</u>
					<u>\$179,263</u>
<u>Reconciliation to Cash on Balance Sheet</u>					
Cash					<u>\$179,263</u>

CHEBOYGAN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
March 31, 2004
=====

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At March 31, 2004, there were no receivables or estimated amounts as uncollectible. Bad debt expense was \$-0-.

Accounts Receivables - HUD

Amounts due from HUD represents funding due the Housing Commission for actual expenses for the programs financed. Balances at March 31, 2004 were as follows:

Housing Choice Voucher Program	\$ <u>5,839</u>
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Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Low Rent Program	\$ 3,161	Low Rent Program	\$ 2,057
Capital Fund Program	2,057	Housing Choice Voucher Program	<u>3,161</u>
	<u>\$ 5,218</u>		<u>\$ 5,218</u>

There were no operating transfers between any of the programs.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2004 was as follows:

CHEBOYGAN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
March 31, 2004

=====

NOTE 4: CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>03/31/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>03/31/04</u>
Low Rent Program				
Land	\$ 20,559	\$	\$	\$ 20,559
Buildings	1,538,951	46,200		1,585,151
Furniture, equip. & machinery - dwellings	25,504			25,504
Furniture, equip. & machinery - administration Building	43,772	36,902	21,861	58,813
improvements	<u>179,110</u>	<u>9,600</u>		<u>188,710</u>
	1,807,896	<u>\$ 92,702</u>	<u>\$ (21,861)</u>	1,878,737
Less accumulated depreciation	<u>(1,405,843)</u>	<u>\$ (85,946)</u>	<u>\$ 21,861</u>	<u>(1,469,928)</u>
Total	<u>\$ 402,053</u>			<u>\$ 408,809</u>
Capital Fund Program				
Buildings	\$ 44,087	\$ 18,780	\$	\$ 62,867
Furniture, equip. & machinery - administration	438	14,249	2,972	11,715
Construction in progress	49,821		49,821	
Building improvements	<u>8,350</u>		<u>8,350</u>	
	102,696	<u>\$ 33,029</u>	<u>\$ (61,143)</u>	74,582
Less accumulated depreciation	<u>(2,972)</u>	<u>\$ (6,845)</u>	<u>\$ 2,972</u>	<u>(6,845)</u>
Total	<u>\$ 99,724</u>			<u>\$ 67,737</u>
Housing Choice Vouchers				
Furniture, equip. & machinery - administration	\$ 15,437	<u>\$ 1,539</u>	<u>\$ (4,159)</u>	\$ 12,817
Less accumulated depreciation	<u>(15,169)</u>	<u>\$ (501)</u>	<u>\$ 4,159</u>	<u>(11,511)</u>
Total	<u>\$ 268</u>			<u>\$ 1,306</u>

CHEBOYGAN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
March 31, 2004
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NOTE 5: CONTRIBUTED CAPITAL

The following is a summary of the activity in the Contributed Capital accounts:

	<u>Contributed Capital</u>
Balance, beginning	\$ 350,838
Depreciation add back	<u>(71,812)</u>
Balance, ending	<u>\$ 279,026</u>

NOTE 6: POST EMPLOYMENT BENEFITS

The Cheboygan Housing Commission provides a pension plan (defined contribution plan) for eligible full-time employees. The Commission's contribution to the plan is up to 8 percent of each employee's annual compensation, and the Commission accounts for pension costs as incurred.

The Cheboygan Housing Commission on June 2, 2004 passed a resolution to participate in a pension plan, the Municipal Employees' Retirement System, (MERS). MERS is a Defined Benefit Program which operates within the Michigan Department of Management and Budget, Bureau of Retirement Systems. The pension covers all eligible full-time employees and requires a minimum contribution by the employee. The Housing Commission authorized on June 2, 2004, the Executive Director to remove \$20,000.00 from the general fund to establish the retirement/pension plan by depositing said sum into Account Number 414053455 at First Federal Bank.

NOTE 7: CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

CHEBOYGAN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 March 31, 2004
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NOTE 8: RISK MANAGEMENT AND LITIGATION

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

NOTE 9: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Housing Commission maintains three Enterprise Funds which provide housing assistance and grant programs. Segment information for the year ended March 31, 2004, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers</u>
Operating revenue	\$ 75,756	\$	\$
Operating expenses	230,224	21,189	485,894
Depreciation	85,946	6,845	501
Operating(loss)	(154,468)	(21,189)	(485,894)
Operating grants	63,750	14,344	492,205
Capital grants		24,761	
Net income(loss)	(84,163)	17,916	8,327
Plant, property, and equipment:			
Additions	42,799	24,679	1,539
Deletions	(21,861)	(2,972)	
Working capital	110,843		64,339
Total assets	541,654	69,794	69,058
Total equity	519,652	67,737	65,645

CHEBOYGAN HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
March 31, 2004
=====

NOTE 10: PRIOR PERIOD ADJUSTMENTS, EQUITY TRANSFERS AND
CORRECTION OF ERRORS

Low Rent Program

Worker's comp audit adjustment for prior year	\$(1,336)
Transfer completed 2001 capital fund to low rent	<u>49,903</u>
	<u>\$ 48,567</u>

Public Housing Capital Fund Program

Transfer completed 2001 capital fund to low rent	<u>\$(49,903)</u>
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Housing Choice Vouchers Program

Changes to 52681 per HUD for FYE 03/31/03	<u>\$ 727</u>
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SUPPLEMENTARY INFORMATION

CHEBOYGAN HOUSING COMMISSION
COMBINING BALANCE SHEET
 March 31, 2004

=====

C-3023	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

ASSETS

Current assets:

Cash	\$ 117,350	\$
Accounts receivable-HUD		
Accrued interest receivable	51	
Prepaid expenses	11,173	
Inventories	1,110	
Due from other programs	<u>3,161</u>	<u>2,057</u>
Total current assets	<u>132,845</u>	<u>2,057</u>

Property, plant, and equipment:

Land	20,559	
Buildings	1,585,151	62,867
Equipment	84,317	11,715
Building improvements	<u>188,710</u>	
	1,878,737	74,582
Less accumulated depreciation	<u>(1,469,928)</u>	<u>(6,845)</u>

Net property, plant and equipment

Total Assets

<u>408,809</u>	<u>67,737</u>
<u>\$ 541,654</u>	<u>\$ 69,794</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 61,913	\$ 179,263
5,839	5,839
	51
	11,173
	1,110
	<u>5,218</u>
<u>67,752</u>	<u>202,654</u>
	20,559
	1,648,018
12,817	108,849
	<u>188,710</u>
<u>12,817</u>	1,966,136
(<u>11,511</u>)	(<u>1,488,284</u>)
<u>1,306</u>	<u>477,852</u>
<u>\$ 69,058</u>	<u>\$ 680,506</u>

CHEBOYGAN HOUSING COMMISSION
COMBINING BALANCE SHEET (CONTINUED)
 March 31, 2004
 =====

C-3023	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

LIABILITIES and EQUITY

Current liabilities:

Accounts payable	\$ 10,318	\$
Tenant security deposit liability	5,072	
Accrued expenses	4,052	
Deferred revenues	503	2,057
Due to other programs	<u>2,057</u>	
Total current liabilities	<u>22,002</u>	<u>2,057</u>
Total liabilities	<u>22,002</u>	<u>2,057</u>

Equity:

Contributed capital - HUD	279,026	
Undesignated retained earnings	<u>240,626</u>	<u>67,737</u>
Total equity	<u>519,652</u>	<u>67,737</u>
Total Liabilities and Equity	<u>\$ 541,654</u>	<u>\$ 69,794</u>

Housing Choice Vouchers 14.871	<u>Totals</u>
\$ 252	\$ 10,570
	5,072
	4,052
	2,560
<u>3,161</u>	<u>5,218</u>
<u>3,413</u>	<u>27,472</u>
<u>3,413</u>	<u>27,472</u>
	279,026
<u>65,645</u>	<u>374,008</u>
<u>65,645</u>	<u>653,034</u>
<u>\$ 69,058</u>	<u>\$ 680,506</u>

CHEBOYGAN HOUSING COMMISSION
**COMBINING STATEMENT OF REVENUE, EXPENSES AND
 CHANGES IN EQUITY**
 Year Ended March 31, 2004
 =====

	C-3023 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 72,335	\$
Nondwelling rent	<u>3,421</u>	<u></u>
Total operating revenues	<u>75,756</u>	<u></u>
OPERATING EXPENSES:		
Administration	63,048	14,344
Tenant services	1,241	
Utilities	15,810	
Ordinary maintenance and operation	44,594	
General expenses	18,685	
Housing assistance payments	900	
Extraordinary maintenance	<u>85,946</u>	<u>6,845</u>
Depreciation		
Total operating expenses	<u>230,224</u>	<u>21,189</u>
Operating income(loss)	(154,468)	(21,189)
NONOPERATING REVENUES AND (EXPENSES):		
Investment interest income	735	
Fraud recovery		
Gain on sale of fixed assets	5,820	
Operating grants	63,750	14,344
Capital grants	<u></u>	<u>24,761</u>
Total nonoperating revenues (expenses)	<u>70,305</u>	<u>39,105</u>
Net income(loss)	(84,163)	17,916
Prior period adjustments, equity transfers and correction of errors	48,567	(49,903)
Equity, beginning	<u>555,248</u>	<u>99,724</u>
Equity, ending	<u>\$ 519,652</u>	<u>\$ 67,737</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 72,335
	<u>3,421</u>
	<u>75,756</u>
50,246	127,638
	1,241
	15,810
	44,594
	18,685
435,147	435,147
	900
<u>501</u>	<u>93,292</u>
<u>485,894</u>	<u>737,307</u>
(485,894)	(661,551)
257	992
1,684	1,684
75	5,895
492,205	570,299
	<u>24,761</u>
<u>494,221</u>	<u>603,631</u>
8,327	(57,920)
727	(609)
<u>56,591</u>	<u>711,563</u>
<u>\$ 65,645</u>	<u>\$ 653,034</u>

CHEBOYGAN HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
 Year Ended March 31, 2004
 =====

	C-3023 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
Cash flows from operating activities:		
Operating(loss)	\$(154,468)	\$(21,189)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	85,946	6,845
Prior period adjustments	(1,336)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-miscellaneous	10	
Prepaid expenses	(4,902)	
Due from other funds	6,778	394
Increase (decrease) in liabilities:		
Accounts payable-operations	667	
Accounts payable-HUD		(2,451)
Accrued wage/payroll taxes	1,621	
Accounts payable-PILOT	(812)	
Tenant security deposits	(323)	
Deferred revenues	(110)	2,057
Due to other funds	(394)	
Net cash (used in) operating activities	<u>(67,323)</u>	<u>(14,344)</u>
Cash flows from noncapital financing activities:		
Operating grants	63,750	14,344
Fraud recovery		
Net cash provided by noncapital financing activities	<u>63,750</u>	<u>14,344</u>
Cash flows from capital and related financing activities:		
Capital grants		24,761
Gain on sale of fixed assets	5,820	
Payments for capital acquisitions	<u>(42,799)</u>	<u>(24,761)</u>
Net cash (used in) capital and related financing activities	<u>(36,979)</u>	

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ (485,894)	\$ (661,551)

501	93,292
727	(609)

	10
(4,902)
	7,172

8	675
(2,451)
	1,621
(812)
(323)

(6,778)	(1,947
	<u>7,172)</u>

(491,436)	(573,103)
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507,695	585,789
<u>1,684</u>	<u>1,684</u>

<u>509,379</u>	<u>587,473</u>
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	24,761
75	5,895
(1,539)	(69,099)

(1,464)	(38,443)
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CHEBOYGAN HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended March 31, 2004
=====

	C-3023 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
Cash flows from investing activities:		
Receipts of interest and dividends	<u>784</u>	<u> </u>
Net cash providing by investing activities	<u>784</u>	<u> </u>
Net increase(decrease) in cash	(39,768)	
Cash, beginning	<u>157,118</u>	<u> </u>
Cash, ending	<u>\$ 117,350</u>	<u>\$ </u>

Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	\$ 117,350	\$
Restricted cash	<u> </u>	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 117,350</u>	<u>\$ </u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
<u>283</u>	<u>1,067</u>
<u>283</u>	<u>1,067</u>
16,762	(23,006)
<u>45,151</u>	<u>202,269</u>
<u>\$ 61,913</u>	<u>\$ 179,263</u>

<u>\$ 61,913</u>	<u>\$ 179,263</u>
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<u>\$ 61,913</u>	<u>\$ 179,263</u>
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CHEBOYGAN HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended March 31, 2004
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Fiscal</u> <u>Year</u>	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing</u> <u>Major - Direct Program</u>		
2004	Low Rent Public Housing	14.850	\$ 63,750
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2004	Capital Fund Program	14.872	39,105
	<u>Low Income Public Housing</u> <u>Major - Direct Program</u>		
2004	Housing Choice Vouchers	14.871	<u>492,205</u>
	Total		<u>\$ 595,060</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

CHEBOYGAN HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
 Year Ended March 31, 2004
 =====

FDS Line Item No.		C-3023 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 107,457	\$
114	Cash-tenant security deposits	<u>9,893</u>	<u></u>
100	Total cash	<u>117,350</u>	<u></u>
	Receivables:		
122	A/R-HUD other projects		
129	Accrued interest receivable	<u>51</u>	<u></u>
120	Total receivables	<u>51</u>	<u></u>
	Other Current Assets:		
142	Prepaid expenses and other assets	11,173	
143	Inventories	1,110	
144	Interprogram due from	<u>3,161</u>	<u>2,057</u>
	Total other current assets	<u>15,444</u>	<u>2,057</u>
150	Total current assets	<u>132,845</u>	<u>2,057</u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	20,559	
162	Buildings	1,585,151	62,867
163	Furn, equip & mach-dwellings	25,504	
164	Furn, equip & mach-admin.	58,813	11,715
165	Building improvements	188,710	
166	Accumulated depreciation	<u>(1,469,928)</u>	<u>(6,845)</u>
160	Total fixed assets, net of accumulated depreciation	<u>408,809</u>	<u>67,737</u>
180	Total noncurrent assets	<u>408,809</u>	<u>67,737</u>
190	Total Assets	<u>\$ 541,654</u>	<u>\$ 69,794</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 61,913	\$ 169,370
<u>61,913</u>	<u>9,893</u>
	<u>179,263</u>
5,839	5,839
<u>5,839</u>	<u>51</u>
	<u>5,890</u>
	11,173
	1,110
	<u>5,218</u>
	<u>17,501</u>
<u>67,752</u>	<u>202,654</u>
	20,559
	1,648,018
	25,504
12,817	83,345
	188,710
(11,511)	(1,488,284)
<u>1,306</u>	<u>477,852</u>
<u>1,306</u>	<u>477,852</u>
<u>\$ 69,058</u>	<u>\$ 680,506</u>

CHEBOYGAN HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended March 31, 2004
 =====

FDS Line Item No.		C-3023 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and EQUITY			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable	\$ 4,876	\$
321	Accrued wage/payroll taxes payable	4,052	
333	Accounts payable-other government	5,442	
341	Tenant security deposits	5,072	
342	Deferred revenues	503	2,057
347	Interprogram due to	<u>2,057</u>	<u>2,057</u>
310	Total current liabilities	<u>22,002</u>	<u>2,057</u>
300	Total liabilities	<u>22,002</u>	<u>2,057</u>
	Equity:		
	Contributed Capital:		
504	Net HUD PHA contributions	<u>279,026</u>	
508	Total contributed capital	279,026	
512	Retained earnings	<u>240,626</u>	<u>67,737</u>
513	Total Equity	<u>519,652</u>	<u>67,737</u>
600	Total Liabilities and Equity	<u>\$ 541,654</u>	<u>\$ 69,794</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 252	\$ 5,128
	4,052
	5,442
	5,072
	2,560
<u>3,161</u>	<u>5,218</u>
<u>3,413</u>	<u>27,472</u>
<u>3,413</u>	<u>27,472</u>
<u> </u>	<u>279,026</u>
	279,026
<u>65,645</u>	<u>374,008</u>
<u>65,645</u>	<u>653,034</u>
<u>\$ 69,058</u>	<u>\$ 680,506</u>

CHEBOYGAN HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended March 31, 2004

FDS Line Item No.		C-3023 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 72,335	\$
704	Tenant revenue-other	<u>3,421</u>	
705	Total tenant revenue	75,756	
706	HUD PHA operating grants	63,750	14,344
706.1	Capital grants		24,761
711	Investment income-unrestricted	735	
714	Fraud recovery		
716	Gain/loss on sale of fixed assets	<u>5,820</u>	
700	Total revenue	<u>146,061</u>	<u>39,105</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	30,912	13,325
912	Auditing fees	875	
915	Employee benefit contributions-adm.	14,383	1,019
916	Other operating-administrative	16,878	
	Tenant Services:		
924	Tenant services-other	1,241	
	Utilities:		
931	Water	8,626	
932	Electricity	2,502	
933	Gas	4,682	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	13,800	
942	Ordinary maint & oper-mat'ls & other	7,233	
943	Ordinary maint & oper-contract costs	13,099	
945	Employee benefit contributions	10,462	
	General expenses:		
961	Insurance premiums	13,243	
963	Payments in lieu of taxes	<u>5,442</u>	
969	Total operating expenses	<u>143,378</u>	<u>14,344</u>
970	Excess operating revenue over operating expenses	<u>2,683</u>	<u>24,761</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 72,335
	<u>3,421</u>
	75,756
492,205	570,299
	24,761
257	992
1,684	1,684
<u>75</u>	<u>5,895</u>
<u>494,221</u>	<u>679,387</u>
22,096	66,333
500	1,375
8,884	24,286
18,766	35,644
	1,241
	8,626
	2,502
	4,682
	13,800
	7,233
	13,099
	10,462
	13,243
	<u>5,442</u>
<u>50,246</u>	<u>207,968</u>
<u>443,975</u>	<u>471,419</u>

CHEBOYGAN HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended March 31, 2004
 =====

FDS Line Item No.		C-3023 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
971	Extraordinary maintenance	900	
973	Housing assistance payments		
974	Depreciation expense	<u>85,946</u>	<u>6,845</u>
	Total other expenses	<u>86,846</u>	<u>6,845</u>
900	Total expenses	<u>230,224</u>	<u>21,189</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	(84,163)	17,916
1103	Beginning Equity	555,248	99,724
1104	Prior period adjustments, equity transfers and correction of errors	<u>48,567</u>	<u>(49,903)</u>
	Ending Equity	<u>\$ 519,652</u>	<u>\$ 67,737</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
	900
435,147	435,147
<u>501</u>	<u>93,292</u>
<u>435,648</u>	<u>529,339</u>
<u>485,894</u>	<u>737,307</u>
8,327	(57,920)
56,591	711,563
<u>727</u>	<u>(609)</u>
<u>\$ 65,645</u>	<u>\$ 653,034</u>

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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**Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Cheboygan Housing Commission
Cheboygan, Michigan

We have audited the financial statements of the Cheboygan Housing Commission, Michigan, (Housing Commission) as of and for the year ended March 31, 2004, and have issued our report thereon dated October 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk

Report on Compliance and on Internal Control
In Accordance with Government Auditing Standard
Cheboygan Housing Commission
Page Two

Internal Control Over Financial Reporting - Continued

that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated October 29, 2004.

This report is intended solely for the information and use of the audit committee, Board of Housing Commissioners, management, others within the organization, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bamy E. Hankel CPA, PC

October 29, 2004

**Report on Compliance with Requirements
Applicable To Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Cheboygan Housing Commission
Cheboygan, Michigan

Compliance

We have audited the compliance of the Cheboygan Housing Commission, Michigan (Housing Commission) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2004. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on the Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance and Internal Control
Over Compliance in Accordance With
OMB Circular A-133
Cheboygan Housing Commission
Page Two

Compliance (continued)

In our opinion, Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2004.

Internal Control Over Compliance

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated October 29, 2004.

This report is intended solely for the information and use of the audit committee, Board of Housing Commissioners, management, others within the organization, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sandy E. Mandel, CPA, PC

October 29, 2004

CHEBOYGAN HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 March 31, 2004
 =====

A. Summary of Audit Results

Financial Statements

1. Type of Auditor's Report issued: Unqualified
2. Internal control over financial reporting:
 - a. Material weakness identified No
 - b. Reportable condition identified that is not a material weakness No
3. Noncompliance material to financial statements: No

Federal Awards

1. Internal control over major programs:
 - a. Material weakness identified No
 - b. Reportable condition that is not a material weakness No
2. Type of auditor's report issued on compliance for major programs Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 No
4. Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>	<u>Amount Expended</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Questioned Costs</u>	<u>Audit Finding</u>
14.850	Low Rent Public Housing	\$ 63,750	No	O	N/A	N/A
14.872	Capital Fund Program	39,105	No	O	N/A	N/A
14.871	Housing Choice Vouchers	<u>492,205</u>	Yes	O	N/A	N/A
	Total	<u>\$ 595,060</u>				

5. Dollar threshold used to distinguish between type A and type B programs \$300,000
6. Auditee qualified as low-risk auditee? Yes

CHEBOYGAN HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
March 31, 2004

=====

B.	Financial Statement Findings	None
C.	Federal Award Findings and Questioned Costs	None

CHEBOYGAN HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
March 31, 2004
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NONE

CHEBOYGAN HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

MARCH 31, 2004

CHEBOYGAN HOUSING COMMISSION
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MARCH 31, 2004

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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Cheboygan Housing Commission

We have audited the financial statements of the Cheboygan Housing Commission ("Housing Commission") as of and for the year ended June 30, 2004, and have issued our report, thereon, dated October 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing our audit of the financial statements, we considered your internal control in order to determine our auditing procedures for purposes of expressing our opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in our judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 6 showing the audit adjusting journal entries).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To our knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to our retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, we would welcome the opportunity to discuss them with you.

Samy E. [Signature], CPA, PC

October 29, 2004

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Cheboygan Housing Commission

We have audited the financial statements of the Cheboygan Housing Commission ("Housing Commission") as of and for the year ended June 30, 2004, and have issued our report, thereon, dated October 29, 2004. We have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to our attention during the audit, are reported on the following pages as management advisory comments.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of our work.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

October 29, 2004

CHEBOYGAN HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS

June 30, 2004

=====

Cash Collections

Tenants currently can pay their rents by cash, check or money order.

We recommend that the Housing Commission consider not allowing payments by cash. This would provide another internal control in the collection of assets.

Signature Stamp

The Executive Director uses a signature stamp for signing checks, but the stamp is stored in an unlocked location at the Housing Commission office.

We recommend that the signature stamp be stored in a secured location.

Tenant Deposits

The deposit ticket is not reviewed by someone other than the employee that makes the deposit.

We recommend that the Housing Commission have one other employee be involved in this process. The additional employee could review the deposit ticket and then after the deposit ticket receipt is brought back, this employee should review that the deposit is the correct amount and also initial the deposit ticket receipt.

Documentation for Expenses

There were a couple checks written without support for the disbursement out of sixty (60) tested.

We recommend that all disbursements have either an invoice or some type of documentation to substantiate the expenditure.

Tenant Photo

The Housing Commission currently makes a copy of the driver's license if the tenant has one.

We recommend that the Housing Commission make a copy of a State Identification for those tenant's that don't have a driver's license. These can be obtained from the local Secretary of State's office.

CHEBOYGAN HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
June 30, 2004

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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			

There are no audit adjusting journal entries.